

**INTERIM REPORT TO THE LEGISLATIVE OVERSIGHT
COMMITTEE ON
MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND
SUBSTANCE ABUSE SERVICES
THE SENATE APPROPRIATIONS COMMITTEE ON
HEALTH AND HUMAN SERVICES
THE HOUSE OF REPRESENTATIVES APPROPRIATIONS
SUBCOMMITTEE ON HEALTH AND HUMAN SERVICES
AND
THE FISCAL RESEARCH DIVISION**

**STUDY ON FINANCING OF
MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,
AND SUBSTANCE ABUSE SERVICES**

**Session Law 2004-161,
Senate Bill 1152,
Part XVIII,
Section 18.1**

AND

**Session Law 2004-124,
House Bill 1414
Section 10.22A**

July 1, 2006

**NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF MENTAL HEALTH, DEVELOPMENTAL
DISABILITIES, AND SUBSTANCE ABUSE SERVICES**

**Interim Report on Study on Financing of Mental Health, Developmental
Disabilities, and Substance Abuse Services**

**Session Law 2004-161, SB 1152
Part XVIII
Section 18.1**

And

**Session Law 2004-124, HB 1414
Section 10.22A**

July 1, 2006

**Division of Mental Health, Developmental Disabilities, and Substance Abuse
Services**

I. Legislative Background:

- Through two separate but related legislative actions, the General Assembly directed reconsideration of financing mental health, developmental disabilities and substance abuse services from two perspectives.
- One perspective is broad and complex in scope and is to include finance alternatives for all sources of funds, including Medicaid, utilized in financing the delivery of mental health, developmental disabilities and substance abuse services. This requirement is set forth in Session Law 2004-161, Senate Bill 1152, Part XVIII, "Study Financing of Mental Health, Developmental Disabilities, and Substance Abuse Services", Section 18.1, and states:

"The Department of Health and Human Services shall study the financing of mental health, developmental disabilities, and substance abuse services. The study shall include the following:

 - (1) An examination of all sources of funds used in the delivery of mental health, developmental disabilities, and substance abuse services throughout the Department.*
 - (2) An examination of alternative financing mechanisms for funding mental health, developmental disabilities, and substance abuse services, including Medicaid.*
 - (3) Recommendations for feasible alternative financing mechanisms."*
- The other perspective focuses on a method of allocating existing resources based on need rather than on historical allocation and expenditure patterns. This direction is set for in Session Law 2004-124, House Bill 1414, Section 10.22A,

“DHHS Policies and Procedures in Delivering Community Mental Health, Developmental Disabilities, and Substance Abuse Services”, and states:

“...The Department shall implement changes in policies and procedures to facilitate all of the following...(2) A revised system of allocating State and federal funds to area mental health authorities and county programs that reflects projected needs, including the impact of system reform efforts rather than historical allocation practices and spending patterns.”

II. Project Status

A Request for Proposals (RFP) was posted in February 2006 for competitive bids and closed at 5:00 p.m. March 21, 2006. The competitively bid RFP proposals from Heart of the Matter Consulting, Inc., and Public Consulting Group were evaluated by a five person panel and, based on price and product, the RFP was awarded to Heart of the Matter Consulting, Inc. in April 2006. Heart of the Matter Consulting, Inc. was the selected bidder earlier for development of the Long-Range Plan for Meeting Mental Health, Developmental Disabilities and Substance Abuse Services. With Heart of the Matter Consulting, Inc. working on both projects, this facilitates a seamless blending of service planning and financing strategies.

The report on progress is outlined herein for the Finance Study.

Product 1 Content: Recommendations for revising the system of allocating existing Division State and Federal funds in a manner which (a) maximizes resources which support the public system, and (b) distributes resources throughout the State in an equitable manner to help ensure the uniform availability of services for consumers and family members.

Product 1 Progress: By the end of June 2006, the contractor will deliver its first draft of the financing model. The model will not only factor in options for financing but will also include tools to estimate the need and distribution of the primary funding sources of Division resources, Medicaid funds and county funds, for public mental health, developmental disabilities and substance abuse services. While not attempting to determine a specific county funding level for any county, the model will factor in a county's ability to contribute resources to the Local Management Entity (LME) as one factor in determining how Division resources should be allocated to achieve a more equitable distribution of funding.

Upon delivery of the model, the Division will utilize a work group of stakeholders such as county managers, county commissioners, LME staff and DHHS staff to assess assumptions and evaluate the reasonableness of the model. From a consensus building standpoint, changes may be recommended and incorporated into the final product.

Product 2 Content: Recommendations/actions for feasible, comprehensive alternative financing mechanisms for community-based mental health, developmental disabilities and substance abuse services provided through the public system in North Carolina (excludes LME systems management allocations). This task is inclusive of all resources utilized in financing mental health, developmental disabilities and substance services in the public system including, but not limited to, State, federal and other funds appropriated to the Division, Medicaid and Medicare funds, county funds, insurance, first party payments, other local funds, resources of State facilities operated by the Division, and resources within other divisions within DHHS. Purposes of the recommendations are to focus on (1) maximizing resources which support the public community-based system, and (2) distribution of resources throughout the State in an equitable manner to help ensure the uniform availability of services for consumers and family members.

Product 2 Progress: Due to its complexity, the final deliverable date for Product 2 is November 30, 2006. Product 2 will build, in large part, on the results achieved through the development of Product 1. Upon completion of Product 1, the contractor will focus efforts on widening the scope of funding considerations to include all sources of funds currently utilized to support the delivery of services in the public mental health, developmental disabilities and substance abuse services.

Product 3 Content: Development of an electronic “cost model” which may be utilized by DMHDDSAS to determine future resource distribution to area/county programs. The “cost model” shall be driven by variables such as population, geographic considerations, service penetration rates, anticipated service need and demand, cost of services, age of consumers, consumer diagnostic information, etc. The “cost model” construct shall be such that (i) users may enter resource amounts for area/county programs and the model will render estimates of increased service levels which could be expected, and (ii) users may manipulate driver variables and the model will render estimates of additional resources needed to increase services, penetration rates, etc., to desired levels.

Product 3 Progress: Development of the cost model is addressed in Products 1 and 2 above as the electronic vehicle to determine cost, funding needs and provide estimates of funding resources. A related cost model is included as a deliverable in development of a Long-Range Plan; therefore, aspects of that model will be incorporated into the financing cost model without the need to duplicate efforts. The deliverable date for the final comprehensive cost model is November 30, 2006.